

C O N F I D E N T I A L SECTION 01 OF 02 WELLINGTON 000915

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TAGS: ETRD ECON PREL TH NZ

SUBJECT: NEW ZEALAND AND THAILAND AIM TO CONCLUDE  
FREE-TRADE AGREEMENT

Classified by DCM David R. Burnett. Reasons: 1.4 (b) and (d).

11. (C) Begin summary: New Zealand and Thailand have begun the fourth and possibly final round in negotiations for a free-trade agreement, which New Zealand hopes to conclude by November 19, before the next APEC summit. The New Zealand government acknowledged that its effort has been hampered by the fact that the Thais stand to gain little from an agreement. New Zealand also has had difficulty surpassing the achievements of Australian negotiators in their free-trade deal with Thailand, which provided for limited liberalization for agriculture. New Zealand's experience may hold some lessons for Washington as U.S. negotiators work toward a free-trade agreement with Bangkok. End summary.

12. (U) In October 2003 during the Asia-Pacific Economic Cooperation (APEC) Leaders meeting in Bangkok, the prime ministers of New Zealand and Thailand made a commitment to begin free-trade negotiations. After holding informal discussions in March and May, the two governments began an ambitious schedule of formal negotiations in June, meeting every six weeks in each other's capitals. The fourth round, which started November 1, is being held in Bangkok. New Zealand hopes this will be the final round of negotiations, with an agreement signed before the November 20-21 APEC summit in Santiago.

13. (C) Shortly before leaving for Bangkok, Rachel Fry, New Zealand's chief negotiator in the talks, told post October 28 that access to the Thai market for goods -- particularly agricultural commodities -- was the principal New Zealand issue remaining to be resolved. In turn, Thailand was seeking to gain access to the New Zealand market for specialist Thai chefs and traditional Thai masseurs. While the Thais presented that goal as a services issue, Fry said New Zealand views it as an immigration matter it proposes to be addressed through a side letter.

Obstacles to New Zealand

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14. (C) Fry said that New Zealand encountered a number of challenges in the negotiations. Among the most important, Thailand's across-the-board high tariffs made a free-trade agreement (FTA) very attractive to New Zealand, while Thailand had far less to gain from a deal. Sixty-five percent of Thailand's products already can enter the New Zealand market duty-free. Nonetheless, Fry said that the Thai government considers FTAs as a way to promote competitiveness among its industries. The Thai prime minister also sees himself as a regional leader on trade issues and views bilateral trade agreements as a means to bolster Thailand's stature in such forums as the Association of Southeast Asian Nations (ASEAN). New Zealand expected that, under the agreement, a large number of Thai tariffs on New Zealand products would be removed on implementation, with others phased out over five years.

15. (C) Fry noted that Thailand's free-trade pact with Australia -- concluded in October 2003 and signed July 5, 2004 -- had provided a useful template for the Thai-New Zealand agreement and had helped enable the two sides to keep to the ambitious negotiating schedule set by leaders. But using this template also has set the bar low on what New Zealand negotiators can achieve. Thailand essentially expected that an agreement with New Zealand would replicate the one it signed with Australia. New Zealand negotiators considered the Australian-Thai agreement as a general model but weak on market-access issues, specifically on agriculture. For example, the Australia-Thailand agreement provided lengthy timeframes for the phaseout of tariffs on beef and dairy products, which are to end in 2020 and 2025, respectively. There also will be delays in Thai tariff reductions for other "sensitive" products, including honey and potatoes. Fry said that while 10 percent of Australia's exports to Thailand are composed of such sensitive items, 30 percent of New Zealand's exports fall into that category. New Zealand is trying to shorten the tariff phaseout times for beef and dairy products in particular, but Fry recognized that as a difficult challenge.

16. (C) Thailand's desire to shelter its dairy farms poses a particular problem for New Zealand, whose largest export earner is dairy. Fry said that, because the Thai government had been accused of ramming through the Australian agreement without public consultations, it has made a concerted effort to consult stakeholders on the New Zealand negotiations. The result was that the relatively small but well-organized Thai dairy industry had significant impact on Thailand's position on dairy access. Fry posited that U.S. negotiators would face similar problems.

17. (C) In the agreements with Australia and New Zealand, Thailand rebuffed any provision that would require a change in legislation. Fry expected that Thailand would need to change its stance on this issue in its negotiations with the United States. Fry added that Thailand's lack of trade statistics and deficiencies in its tariff schedule also hindered the talks. New Zealand may have been disadvantaged by agreeing with Thailand to use each other's import statistics, she said. For example, Thai statistics appear to understate imports of New Zealand goods compared to reports by New Zealand exporters. That disparity could harm New Zealand, since proposed agricultural safeguards would be triggered by the growth in import volumes.

18. (C) Fry said the agreement will include chapters on technical barriers to trade and sanitary and phytosanitary measures. New Zealand hopes these provisions will create mechanisms through which such issues could be addressed through the FTA. The Thais have asked New Zealand to develop certain import health standards for tropical fruit, which do not now exist. A chapter on intellectual property will reiterate both countries' obligations under the Agreement on Trade-Related Aspects of Intellectual Property Rights and include a commitment to cooperate on enforcement.

19. (C) New Zealand had hoped to gain access to Thailand's hugely restrictive services market, but now expects to pursue further negotiation on the issue in three years, according to Fry. New Zealand also hoped to include chapters on environmental and labor protections, but the Thais objected. Instead, the agreement will include nonbinding, political commitments, which Fry said Thai negotiators classify as "hortatory," stating that each party will not depart from labor and environmental standards to gain a trade advantage.

#### Negotiating tips

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110. (C) Fry characterized the Thais' negotiating style as "cautious," although some of the members of the Thai team are very energetic. Many of the team members were prior participants in the negotiations with Australia, and Fry expected they also would play roles in talks with the United States. She identified Ms. Chutima, who took the lead on policy issues, as a particularly tough negotiator.

111. (C) Fry also noted that the Thai Agriculture and Commerce Ministries do not appear to coordinate their messages well. The Ministry of Agriculture in particular has tried to keep a tight rein on its issues, leading to mistakes and confusions in the Thai government's presentations at negotiating sessions, especially at the working level. At times, the Agriculture Ministry presented positions that the Commerce Ministry appeared to not have closely reviewed. The Thai negotiators then changed their negotiating positions.

112. (U) Two-way goods trade between New Zealand and Thailand totaled about NZ \$900 million (US \$617 million) in 2003, with New Zealand's exports to Thailand pegged at NZ \$329.72 million (US \$222 million) and imports at NZ \$572.73 million (US \$393 million). Thailand is New Zealand's 15th-largest trading partner.

113. (U) New Zealand -- which has free-trade partnerships with Australia and Singapore -- is currently holding three-way talks with Chile and Singapore. It also is preparing for negotiations with China and is considering such talks with Egypt, Malaysia and Mexico. In addition, ASEAN has proposed free-trade negotiations with New Zealand and Australia.  
Swindells